The Changing Face of Retail

Presentation to the
Seven Corners Task Force

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WE ARE

an uncommon collective of designers, brokers, architects, developers, planners, researchers, and creative thinkers. We are inspired by the desire to create distinctive places and meaningful brands. Whatever the challenge, our team of experts is ready to take it on with you – our collaborative ideology is our greatest differentiator.

STREETSENSE.

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WE DO

ARCHITECTURE + INTERIOR DESIGN

architectural design
restaurant design
retail store design
prototype development
prototype adaptation
construction documentation
contract administration
sustainability consulting
3-D visualization

PLANNING

site + master planning
design guidelines
site analysis
streetscape + urban design
entitlements
site signage + wayfinding
landscape design
community outreach

CREATIVE

naming
branding
logo development
environmental graphics
signage
packaging
marketing
print collateral
advertising
public relations
web development
social media
interactive media
photography

DEVELOPMENT

feasibility studies
due diligence
tenant coordination
pro forma analysis
design + construction management
value engineering
advisory services

BROKERAGE + REAL ESTATE STRATEGY

landlord rep
tenant rep
market research + analysis
custom demand modeling
site assessment
investment sales
roll-out strategies
merchandising strategies

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Five Major Factors Affecting Retail Development Moving Forward

We are in the perfect Storm….

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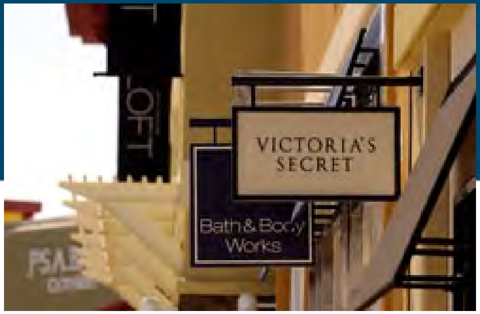

1 Over Supply of Major Retail Brands

- Leading up to the downturn in 2008, Wall Street and the Investor Market was driving Retail Expansion
- Many major retailer lost site of sound expansion strategies resulting is store cannibalization and dilution of brand
- National retailers will be scaling back on new growth moving forward with some stores reducing the store count by 50%

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2 Major Change in Consumer Buying Patterns

- Post 2008 the Baby Boomers started to cut back to spending, particularly with respect to Goods and General Merchandise
- The X & Y Generation is becoming a significant buying force focused on "Experience" over "Things"
- National and Local Retailers are adjusting to the new buying patterns and trying to re-gain their footing….There will be some winner and losers

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3

Internet Shopping Insurgence

- Leading up to 2008…Internet shopping was insignificant compared to the dollars spent in bricks and mortar retail…roughly 3 to 8 % of sales
- According to recent studies…internet sales represent over 18% of total sales with the curve trending almost vertical
- Many National Boxes and commodity retailers are seeing the relevance of their stores diminish…some will not survive
- Specialty store are trending towards “gallery” locations

4 Development Patterns are Switching to "Urban" over "Suburban"

- Both Boomers and X & Y's are seeking the city and retailers are following with them with their growth strategies
- Streetsense has experienced the brokerage work shifting from a majority of our leasing activity outside the beltway to the majority of leasing volume inside the beltway
- Urban markets are underserved by most retail categories and represent the biggest opportunity for retail expansion

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5 Strategy is Key to Success

- Understanding the specificity of a market today is critical for success
- Immersive is in…commodity retail is going on-line
- Speculative development has no place in today's development cycle and is very difficult to underwrite

2012 Harsh Reality: Build It and They might Not Come!

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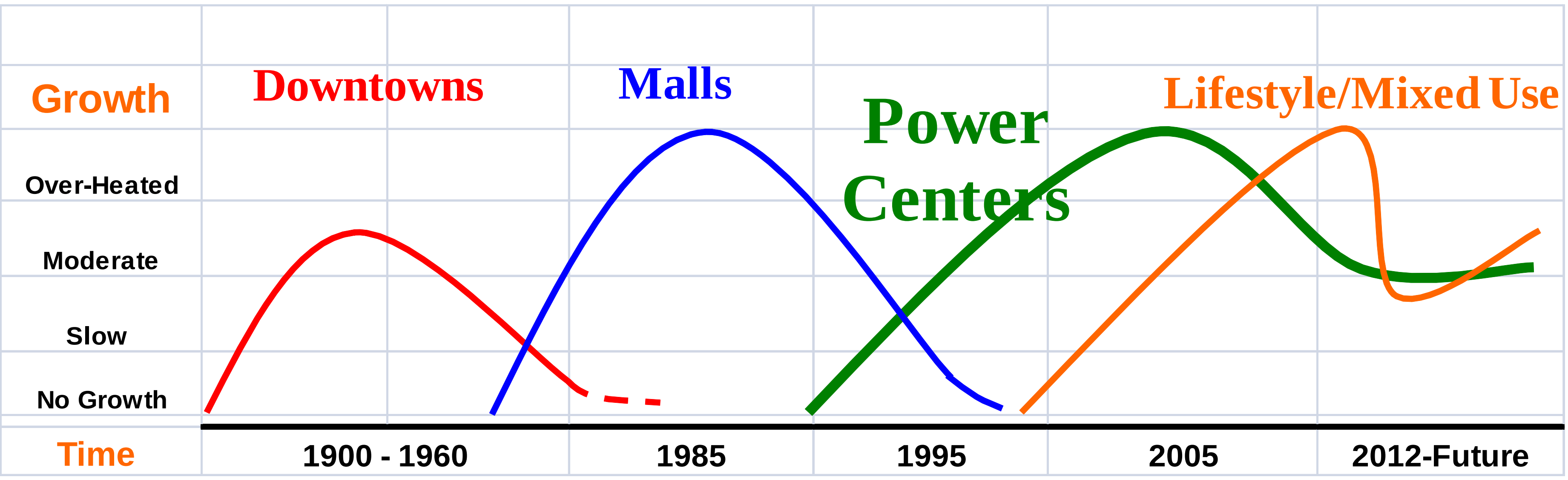
100 Years of Retail in America

Shopping Center Growth Curves



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All categories still maintain their relevance….some more than others

power center

specialty center

placemaking

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Changes in Consumer Demand

Many consumers are looking for a mixed-use experience. Some of the main groups are:

- Aging Baby Boomers looking to simplify their lifestyle.
- Young professionals looking for a more urban living experience with the convenience of a suburban location.
- Retirees looking for a more immersive environment that provides public areas to spend leisure time.

Factors to Consider With Mixed-Use Development

It’s Harder Than It Looks ….

Higher Density Can Bring Higher Risks:

Important Points to Consider Before Integrating a Mix of Uses

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Parking

Different uses have different Parking requirements:

- Typically commercial/retail parking is more intensive.
- Retail/office patrons like large fields of parking that are public & open with great visibility.
- Residential patrons like secure private parking arrangements close to their unit.
- Designing an immersive urban experience can be difficult when factoring in the reality and scale of the parking demand.

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Parking

- Urban Mixed use development models typically require structured parking which can be three to six times more expensive on a space-by-space basis.
- Each use has different economics thresholds with respect to penciling out structured parking.
- Because the parking ratio per square foot can be up to ten times greater than multifamily housing, retail and office uses require much higher rents or an extremely low land basis in order to afford structured parking. Hotel has the lowest demand
- Be prepared, urban retail projects require as much parking as conventional projects. The parking also needs to be well distributed and balanced with the program.

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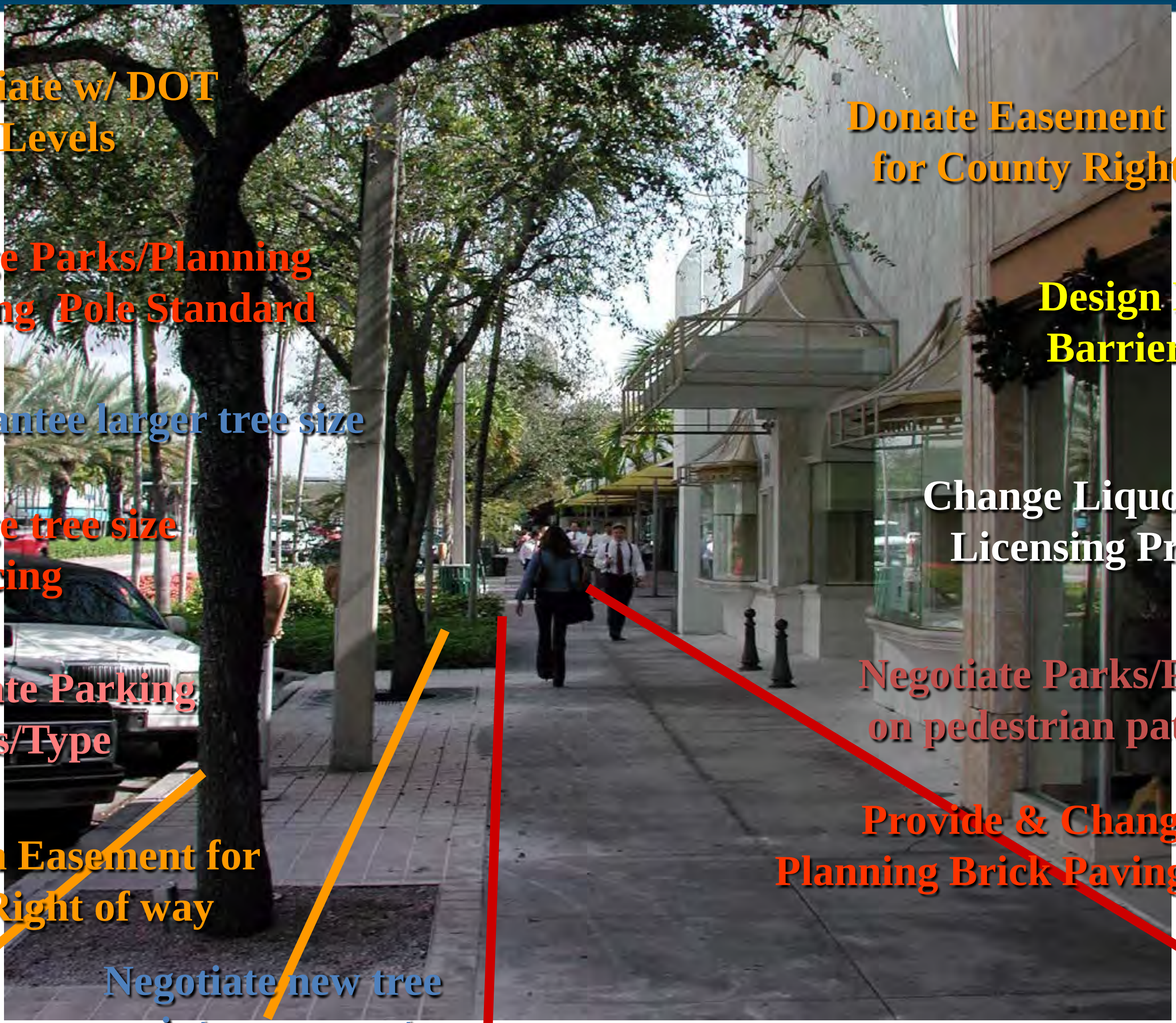
Public Space



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Retail, Residential & other uses have Different Rates of Absorption

- Retail and residential uses have different rates of absorption.
- Retail likes to open with critical mass and has minimum square foot thresholds that need to be met in order to be viable.
- Lower residential absorption can restrict the amount of integrated product that can realistically be phased.
- Balancing and phasing an integrated multi-family product in key to the success of the development.
- Consider multi-use over mix-use.

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Place Based Development Models can add Cost and Complexity

Type of Construction	Where it Works
3 Story Surface Parking	**Almost Everywhere** **(Land is driving this product to outermost suburbs)**
4 Story With Parking Deck	**Infill Urban/Suburban** **Type V**
5-6 Story Steel with Parking Deck	**Transitional Urban** **Type II or III**
High Rise with Underground Parking	**Prime Value Locations** **(Urban with transit)**

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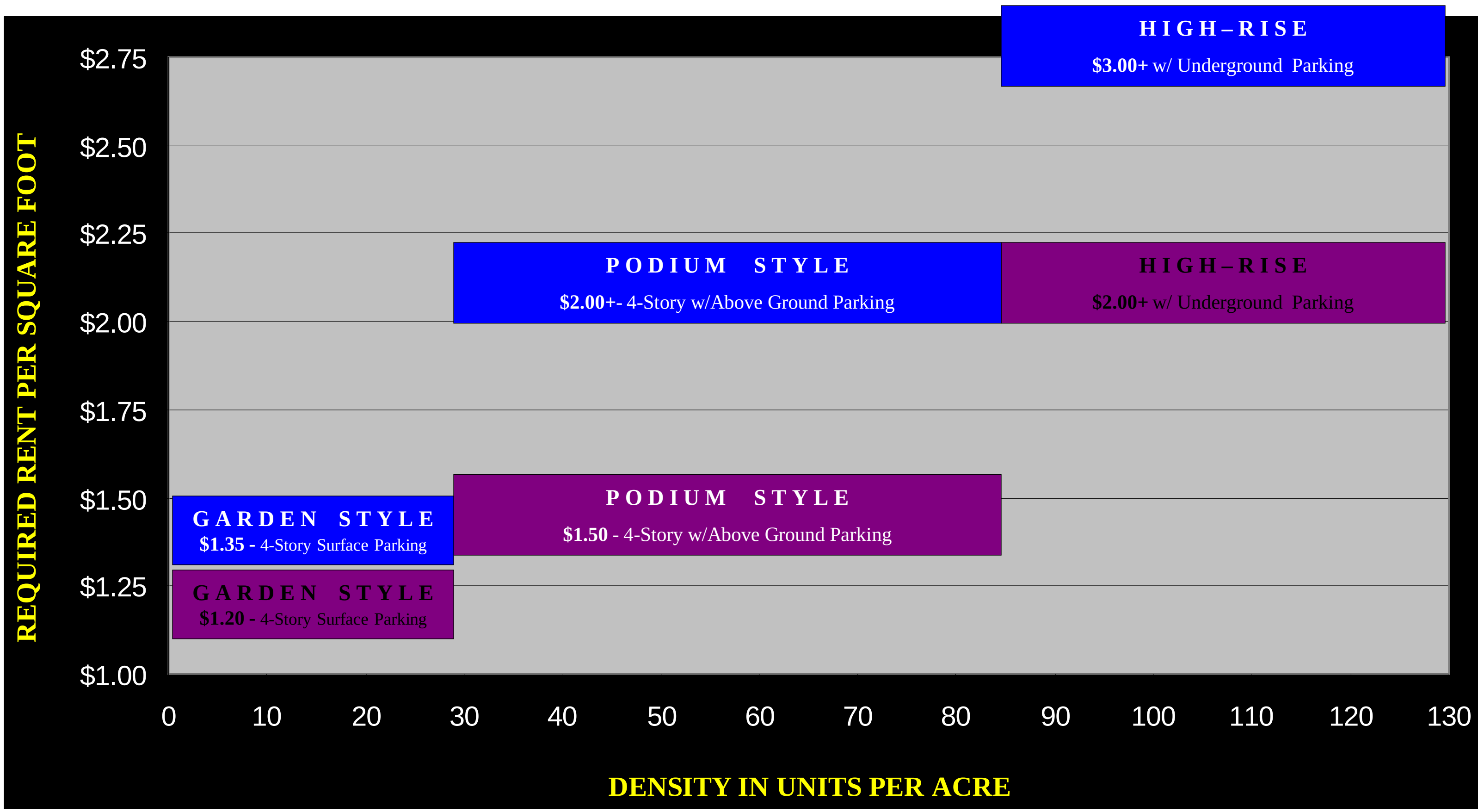
Place Based Development Models can add Cost and Complexity

REQUIRED RENTS / SF VS. REQUIRED DENSITY

(2003 TO PRESENT COMPARISON)



JULY 2003 REQUIRED RENT / SQUARE FOOT

CURRENT REQUIRED RENT / SQUARE FOOT

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Place Based Development Models can add Cost and Complexity

- Typically, mixed-use is a place based development model.
- Place is a destination, like an anchor.
- It is usually more expensive to design and build.
- Place is hard to put a value on and underwrite.
- Real places only work if they respond to the market. Unit mix, product type and retail merchandizing strategies have to be targeted appropriately….Who is the consumer?

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Project “X”

Ground Level Site Plan

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Project "X"

Revised Ground Level Site Plan

Final Thoughts

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Public/Private Partnership Issues

- Co-Invest in Urban Places
- Development Vision Must Be Shared
- Control DPW/DOT
- Density (FAR) vs. Realistic Land Basis

Thank You